

## Oil prices sink to 2-year low

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**BRAD FOSS** - The Associated Press - Friday, September 15, 2006

WASHINGTON -- Natural gas futures plunged 10 percent to a two-year low on Thursday after U.S. government data showed record supplies.

Industry officials said homeowners that depend on natural gas for heat should see lower bills this winter, assuming normal temperatures.

"It looks much better than last year for natural gas consumers," said Mark Stultz, a spokesman for the Natural Gas Supply Association.

Oil prices were weighed down by the sharp selloff in natural gas, which analysts attributed to the rising inventory of fuel, slack demand and receding fears about possible Gulf of Mexico supply disruptions during this year's waning Atlantic hurricane season.

October natural gas futures fell 55.7 cents to settle at \$4.892 per 1,000 cubic feet on the New York Mercantile Exchange. The last time front-month natural gas futures settled below \$5 was Sept. 16, 2004.

Residential and industrial consumers of natural gas will no doubt appreciate natural gas prices that are more than 50 percent lower than a year ago, but some industry officials warned against breathing too easily.

"We have fundamental supply problems," said Paul Cicio, executive director of the Industrial Energy Consumers of America, a trade group that is lobbying Congress to open up more of the country's coastal waters to petroleum exploration and production. Hurricane season is not over, Cicio said, and if it turns out to be a colder-than-normal fall and winter, U.S. natural gas inventories could quickly contract.

"If you have any doubt about the supply uncertainty, look at what the December and January natural gas futures are priced at," Cicio said. Both December and January natural gas futures traded Thursday above \$8 per 1,000 cubic feet.

In the short-term, natural gas futures are poised to fall as low as \$4.50, said ABN Amro broker Gerry Saccente.

But Saccente cautioned that prices were likely to level off at the start of autumn, when traders typically begin to fret over wintertime demand. "The psychology will change," he said.

Energy Department data showed U.S. inventories of natural gas climbing last week to 3.08 trillion cubic feet.

That is 12.4 percent above the five-year average for this time of year and the earliest that natural gas storage levels have exceeded 3 trillion cubic since the Energy Department began tracking the data 12 years ago.

Stultz said his association is anticipating a record 3.5 trillion cubic feet of natural gas in storage by Nov. 1, the unofficial start of the home-heating season.

Some analysts have suggested the U.S. may actually run out of storage capacity, forcing producers to cap wells. "People are watching the situation closely," Stultz said.

Natural gas supplies were already ample heading into the summer because a warm winter last year sapped home-heating demand and because most of the Gulf of Mexico output that was lost during last year's hurricanes had been restored.

And except for a heat wave or two, summertime demand for gas-fired electricity did not make a significant dent in that surplus. "The hot weather fell apart a month ago," Saccente said.

Nymex oil futures, which have declined in eight of the last nine trading sessions and by more than 19 percent since a midsummer peak of \$78.40, fell 75 cents to settle at \$63.22 a barrel.

Falling oil prices are not uncommon at this time of year, when gasoline consumption traditionally tapers off and heating oil demand has yet to ramp up. The drop has been magnified by a perception among oil traders that threats to supplies -- ranging from Atlantic hurricanes to Middle East politics -- have eased.

In other Nymex trading, heating oil futures fell 3.18 cents to settle at \$1.7110 per gallon and gasoline futures settled negligibly lower at \$1.5522 per gallon.

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